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UNCLAS SECTION 01 OF 05 HARARE 000078

SIPDIS

AF/S FOR S.HILL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
TREASURY FOR J.RALYEA AND T.RAND
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
COMMERCE FOR BECKY ERKUL

SIPDIS

E.O.12958: N/A
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SUBJECT: Zim Notes November 16, 2007

¶1. The Embassy Harare Political/Economic Section began producing Zim Notes in July, 2007 to present a perspective on current events in Zimbabwe. Suggestions are always welcome. If you would like to receive Zim Notes by email, as well, please contact Frances Chisholm at chisholmf@state.gov. Distribution is restricted to U.S. government employees.

¶2. Parallel rate for cash nearly doubled to ZW\$6.3 million:US\$1; the bank transfer rate fell to Z\$6million vs. official exchange rate of: ZW\$30,000:US\$1
Sugar on the parallel market rose to Z\$5 million/2kg vs. controlled price of Z\$247,000/2kg
Cooking oil rose to Z\$9.5 million/750ml vs. controlled price of Z\$440,000/750ml
Petrol and diesel more than doubled to Z\$10 million and Z\$9 million/liter respectively vs. Z\$60,000/liter at controlled price

On the Political/Social Front

¶3. Police Respond with Violence to "Freedom March". . . Police used tear gas and violence to disrupt the MDC Tsvangirai factions' "Freedom March" in Harare on January 23. On the morning of the event, at about 4:00 am, police dragged MDC leader Morgan Tsvangirai from his home and interrogated him at police headquarters for several hours about plans for the march. The MDC reported 14 marchers, including MDC national organizing secretary Elias Muduzi were arrested and released later that evening after paying a fine; more than 15 supporters were treated for injuries. Several political observers noted that the government's harsh response to the march was indicative of Mugabe's true intentions in regard to the SADC talks and the chances for free and fair elections.

The MDC had called for the march and rally to press the government for food and jobs, free and fair elections, and a new constitution. Police initially gave permission on January 18, but later rescinded

the approval on January 21 based on unspecified "intelligence" that the opposition had other "sinister motives." The MDC challenged the decision in court, and less than an hour before the planned start time on January 23, a magistrate ruled that the MDC could hold the rally, but upheld the denial to march citing public security concerns. In defiance of the ban, about 200 opposition supporters set out from MDC headquarters in the city center for the rally location as hundreds more quickly joined in. Police descended on the group within a few blocks with tear gas and batons. There were running clashes between marchers and police over a six block area for about 30 minutes. An estimated 1,000 supporters eventually gathered in a field near the rally location where they sang songs, danced, and listened to a speech from Tsvangirai. A large contingent of riot police observed the event from a distance. The group peacefully dispersed after about an hour. See Harare 0067 for details.

14. Elections On Track For The End Of March. . . President Mugabe is expected to set a date for nominations soon. Elections must be scheduled between 21 and 45 days of that date; we assume they will take place on March 28 or March 29. We understand that Simba Makoni, speculated about as a possible rival to Mugabe, has told Mugabe he will not oppose him. SADC negotiations have apparently broken down after Mugabe rebuffed MDC demands that a new constitution be implemented before elections and that elections be postponed. The MDC is considering whether or not to boycott elections, given what it sees as an unlevel playing field, but we expect they will decide to contest. See Harare 70 and 71 for more details.

15. Parliament Adjourns As Election Countdown Begins. . . Parliament adjourned this week until April 8. President Mugabe will now need to issue proclamations dissolving parliament, enacting the

HARARE 00000078 002 OF 005

final constituency and ward boundaries and setting dates for nominations and polling. Before adjourning, both the House of Assembly and Senate passed the National Incomes and Prices Amendment Bill, which extends the life of the National Incomes and Prices Commission; the Bill now awaits presidential assent. The parliamentary Legal Committee gave the Mines and Minerals Amendment Bill the green light, but it did not go through both houses before the adjournment. The Bill includes provisions to pass majority ownership of mines to indigenous Zimbabweans. If President Mugabe dissolves parliament for elections in March, the Bill will lapse and need to be re-introduced and gazetted under a newly elected parliament.

16. Supreme Court Rules On Land Seizure Case. . . The Zimbabwe Supreme Court ruled this week against Michael Campbell, a white farmer who was contesting the seizure of his farm. Campbell had also appealed to the SADC Tribunal in Windhoek which issued an interim order on December 13 enjoining the Zimbabwean government from interference with his land until a ruling (still pending) by the Tribunal on the merits of the case. At the time of the Tribunal hearing, the Government of Zimbabwe pledged to abide by the Tribunal's ultimate decision. Nevertheless, after the ruling by the Supreme Court, Didymus Mutasa, Minister of Lands, Land Reform, and Resettlement, said he would allow eviction of Campbell from his farm.

17. Ambassador Visits Bulawayo. . . On his first trip to Bulawayo (Zimbabwe's second largest city) from January 17-19, Ambassador McGee met city leaders and heard about the worsening crisis in delivery of essential services, especially clean water. He also met with leading opposition political figures and civil society leaders to gauge attitudes toward upcoming elections. A media roundtable allowed him to articulate U.S. policy toward Zimbabwe and U.S. principles for reengagement. In addition, he visited USAID humanitarian assistance projects and a Self-Help funded project for orphans and vulnerable children. He attended a reception for alumni of the International Visitor and Fulbright Programs and a Public Affairs Section-sponsored concert at a local high school, in addition to meeting U.S. citizens living in the area. See Harare 0045 on the political pulse in Bulawayo

¶8. Flooding Continues. . . The UN and the GOZ's Civil Protection Unit (CPU) report that 10,000 people have been affected by flooding since mid-December. The CPU issued a flood alert for Muzarabani and Dande communal lands in Mashonaland Central province in the expectation of new flooding from the Zambezi River Valley caused by the backflow of water from the Cahora Bassa dam. Flooding has destroyed crops, with losses in Muzarabani estimated at 3000 hectares each for cotton, maize, and sorghum. Water-borne diseases are spiking, but appear controllable. In anticipation of further heavy rains and flooding, four stand-by rapid assessment teams have been formed, each comprised of technical experts from government local authorities, UN agencies and NGOs. A regional flash appeal is being prepared for the floods. See Harare 0041.

¶9. Bulawayo Gets Water But Can't Treat It . . . The good news is that heavy rainfall has filled Bulawayo's nearly dry reservoirs to almost 75 percent capacity. The bad news is that the Bulawayo City Council has a critical shortage of chemicals with which to treat that water, with only two days' worth of aluminum sulphate remaining. Stakeholders from government, local authorities, UN agencies, NGOs, and the private sector will meet next week to discuss the situation. Before the UNICEF-coordinated humanitarian response can phase out, attention must focus on the provision of water treatment chemicals and information education campaigns regarding the safe use of untreated water at a household level.

¶10. USAID Begins DG Sector Assessment . . . A team led by Professor Michael Bratton of Michigan State University began work on

HARARE 00000078 003 OF 005

a democracy and governance (DB) sector assessment in Harare this week. The team, including a DG specialist from USAID Washington and political scientists from the University of Zimbabwe, will pursue three principal areas of inquiry: 1) analysis of the current political, economic and social issues that characterize the country, leading to the identification of key problems relating to the transition to democracy; 2) analysis of important political actors - their interests, resources, and actions-leading to identification of both allies and opponents of democratic reform; and 3) analysis of the institutional arenas that are important to further understanding the key democracy and governance problems and the relevant actors. Taken together, these analytical steps will permit the development of a democracy and governance strategy for the U.S. Mission to address the problems identified in step one by working with the actors and institutions identified in steps two and three.

¶11. Cross-Border Trading Essential For Survival. . . About 96,300 MT of maize, rice, and beans were traded across Zimbabwe's borders, a 10% increase in the April-November 2007 period compared to the same period last year, according to a report on Southern Africa's food trading patterns by the Famine Early Warning System Network. Maize accounted for 83% of this regional trade. Zimbabwe continued importing maize this year (304,000MT) to offset poor domestic production, and 99% of imports came from Malawi. There was very little informal bean trade to Zimbabwe, with no changes in the volume traded (6,733MT) in the whole region in this period compared to the same period last season. However, data on informally traded rice indicate that Zimbabwe was the largest importer in the period April-November 2007, accounting for 35% of traded rice or 3,048 MT, of which 81% was imported from Zambia.

On the Economic and Business front

¶12. New Twist to Cash Shortage. . . Finance Minister Mumbengegwi and Reserve Bank Governor Gono ordered bank chief executives to clear up queues at banks within a week or face unspecified action from the authorities. This followed the RBZ's assertion that it was stuck with stacks of cash that commercial banks were not collecting, resulting in the prevailing cash shortage. According to the authorities, banks are diverting depositors' funds into speculative activities on the stock market and foreign currency parallel market. Threatening to close some banks, Mumbengegwi stated that he would not devalue the Zimbabwe dollar until speculative activities stop and production increases. However, he did not specify how this will

be achieved with the value of the currency held constant at its present grossly overvalued official exchange rate.

Governor Gono took the unprecedented step of conducting journalists, bankers and the business community on a tour of the vaults to show that cash was available. However, what he failed to tell them was that, for banks to collect the cash from the RBZ, they need to cover the amount with security in the form of treasury bills. Under the current circumstances in which deposits are drying up for lack of confidence in the banking system, the market has been characterized by huge daily shortages averaging around Z\$120 trillion over the past two days. Banks have had to borrow from the RBZ at very high rates to meet cash withdrawals by the public, putting some banks at risk of failure in the medium term. See Harare 0044 for more on the cash shortage.

¶13. *The Zimbabwe Dollar Takes A Battering . . . In the past week the Zim dollar depreciated by nearly 50% on the parallel cash market; the bank transfer rate also fell by about 20% but then bounced back to Z\$6 million:US\$1. The depreciation early in the week on both markets reflected the upturn in demand for forex following the re-opening of businesses after the Christmas break (see Harare 0044). However, Reserve Bank Governor Gono's statement

HARARE 00000078 004 OF 005

on January 23 that the RBZ had installed an electronic system to monitor currency movements in both local and offshore accounts also frightened people out of the transfer market, resulting in the appreciation of the transfer rate to well below the cash rate. We learned from a senior RBZ official that the monitoring system is not new; it has been in operation in Zimbabwe for some time now to monitor large transfers. As this information filters into the market, we expect the transfer rate to depreciate to above the cash rate once again.

¶14. Regional Power Blackout Underlines Zimbabwe's Power Woes. . . Power blackouts across the region this week have underlined the precarious state of Zimbabwe's regional and domestic power supply. South Africa no longer exports power to Zimbabwe, according to the Zimbabwe Electric Supply Authority (ZESA); supply from the DRC is erratic; HCB in Mozambique is holding Zimbabwe on a tight leash, and Zimbabwe must meet its new power export obligation to Namibia. Domestically the Hwange thermal plant continues to struggle with coal supply and the national grid is increasingly subject to vandalism. The short- and medium-term outlook for meeting Zimbabwe's power needs, even in the face of a sharply contracting economy, is gloomy. See Harare 0073 for details.

¶15. Air Zimbabwe Raises Fares Again... Hardly two months after more than doubling its fares, Air Zimbabwe raised them again by an average of 300% with effect from January 23. A round trip economy class ticket to Beijing, for example, went from Z\$1,145,400,000 (about US\$200 at the parallel market) to Z\$4,515,400,000 (about US\$750). With domestic airfares 800 percent below cost, it had become cheaper to fly business class than travel by bus, according to Air Zimbabwe's CEO, with tax payers meeting the difference through subsidies. As a result, the parastatal was operating at an unsustainable loss. The new fares are still about 50% below those of other regional airlines. We predict another increase just around the corner.

¶16. Hunyani Holdings Ltd Hurting. . . Symptomatic of the state of industry, paper and packaging giant Hunyani Holdings Ltd released a set of disappointing results for the year ended October 31, 2007. Its turnover (up 15,455%) failed to keep pace with the rate of inflation. Analysts attributed the poor performance to Zimbabwe's fixed and overvalued foreign exchange rate, regulated prices, and hyperinflation. Moreover, the deteriorating macroeconomic environment weakened domestic demand for corrugated products while a lower tobacco crop in Malawi added to the negative effect of the overvalued Zimbabwe dollar on exports. The flexible division did not do well either, due to the shortage of foreign exchange for inputs and boiler problems at the mill which reduced timber throughout. Output declined by 18% during the year under review and the company did not declare a dividend.

¶17. Ambassador Begins Outreach to Business Community... Ambassador McGee challenged the business community to be more energetic in bringing about peaceful change in Zimbabwe in a speech to the American Business Association of Zimbabwe (ABAZ) on January 17. See Harare 0047 for details.

¶18. Embassy Stretched Thin In Service Delivery... The free-fall in Harare's public service delivery is severely taxing the embassy's ICASS budgets and staffing, which State Department workload data show to be the leanest in Africa despite Harare's unprecedented rate of peacetime collapse. This week's prolonged power outage left Public Affairs' shared high-rise offices without water or electricity, requiring emergency set-up of temporary PAS offices on our cramped chancery compound. All other embassy facilities have stand-alone generators, many of which run 24/7. Most of the embassy's water is now supplied from wells on our properties, although many of the wells have gone dry as more Harare residents tap into the water table at an estimated rate of 100 new wells per

HARARE 00000078 005 OF 005

week. Our fuel and water trucks are now in operation seven days a week, 12 hours a day.